Supreme Court, U.S.
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No. 07-22

IN THE

Supreme Court of the United States

THOMAS R. MOSEY, ET. AL, PETITIONERS

v.

DIPPIN' DOTS, INC. AND CURT D. JONES

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Federal Circuit's standard for determining if the assertion of a fraudulently obtained patent is immune from antitrust scrutiny conflicts with *Walker Process Equipment, Inc. v. Food Machine & Chemical Corp.*, 382 U.S. 172 (1965).

2. Whether a patent owner can be subjected to antitrust liability where the patent owner enforces a patent that was obtained by failing to disclose material information to the Patent Office, where the patent owner knew that the omitted material was highly material to patentability.

PARTIES TO THE PROCEEDING

THOMAS R. MOSEY, DOTS OF FUN, INTERNATIONAL LASER EXPRESSIONS, INC. (also known as I.L.E., Inc.), NICHOLAS ANGUS, FROSTY BITES, INC. (now known as Mini Melts, Inc.), and FROSTY BITES DISTRIBUTION, LLC, *Petitioners.*

DIPPIN' DOTS, INC. and CURT D. JONES, *Respondents.*

Rule 29.6

Petitioner International Laser Expressions, Inc. (also known as I.L.E., Inc.) has no parent corporations, and there are no publicly held companies that hold 10% or more of Petitioner's stock.

Petitioner Frosty Bites, Inc. (now known as Mini Melts, Inc.) has no parent corporations, and there are no publicly held companies that hold 10% or more of Petitioner's stock.

Petitioner Frosty Bites Distribution LLC has no parent corporations, and there are no publicly held companies that hold 10% or more of Petitioner's stock.

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U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007) 9

OPINIONS BELOW

The Opinion of the Federal Circuit is officially reported at 476 F.3d 1337 and is reprinted at App. 1a-24a. The order denying the petition for rehearing is unofficially reported at 2007 U.S. App. LEXIS 9603 and is reprinted at App. 63a-64a. The district court's judgment is unreported and is reprinted at App. 28a-33a. The district court's order and opinion on inequitable conduct is unofficially reported at 2004 WL 1391803 and is reprinted at App. 50a-62a.

JURISDICTION

The judgment of the Federal Circuit was entered on February 9, 2007. Petitioners timely filed a petition for rehearing, which was denied on April 6, 2007. The Petition for Writ of Certiorari is due on July 5, 2007. This Court has jurisdiction under 28 U.S.C. § 1254(1).

RELEVANT PROVISIONS INVOLVED

15 U.S.C. § 2 (Sherman Act)

> § 2. Monopolization; penalty
>
> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other

person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.

15 U.S.C. § 15 (Clayton Act)

§ 15. Suits by persons injured

(a) Amount of recovery; prejudgment interest. Except as provided in subsection (b), any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee . . . .

STATEMENT

Patent law and antitrust law promote economic and social utility, but through drastically different methods. Patent law grants patent owners the right to prevent competitors from engaging in certain competitive acts, while antitrust law guarantees that competitors in any market will compete freely. When a patent allows a patent owner to monopolize a market, the policies and applications of patent law and antitrust law threaten to collide.

To resolve this potential incompatibility, this Court held in *Walker Process Equipment, Inc. v. Food Machine & Chemical Corp.*, 382 U.S. 172 (1965), that patentees are generally immune from antitrust suits for asserting unexpired patents. The Court qualified this immunity, however, adding that in some contexts the patent laws must give way to the antitrust laws. Specifically, when a patentee obtains a patent through fraud on the Patent Office ("PTO"), assertion of that patent can give rise to antitrust liability. The Court thus established a new type of antitrust-based claim – *Walker Process* fraud – thereby fixing the proper boundary line between patent law and antitrust law.

The Federal Circuit has exclusive jurisdiction over most patent appeals and consequently approaches this Court's boundary line between patent law and antitrust law with a significant focus on the patent interests involved. In seeking to promote patent interests in the instant case, the Federal Circuit has shifted the patent/antitrust boundary line, and has provided patent immunity in a context and manner that departs from this Court's policies and precedents,

including those set forth in *Walker Process*. This Petition seeks to reestablish that line, so that these two bodies of law may once again work in harmony to promote social utility.

Today, the patent office relies heavily on disclosures from applicants, who consequently have many opportunities to deceive the PTO. The number of patent applications submitted to the PTO increases each year, stretching the PTO's resources thin. If a patentee does not disclose an invalidating prior art source, there is a high risk that the PTO will not find it independently. Prior art based on prior sales and public uses by the applicant, which are usually unknown to the PTO unless disclosed by the applicant, provide particularly fertile ground for fraud.

During the prosecution of the patent underlying this suit, the inventor, Curt Jones, and his patent attorney, Warren Schickli, succumbed to the temptation to take advantage of the PTO's ignorance of Jones's own prior sales – the so called "Festival Market" sales – by choosing not to disclose them to the PTO. Jones sold and served frozen and completely free-flowing[1] ice cream beads for direct consumption at the Festival Market in 1987. (JA1064-66; JA1464-66.)[2] Although Schickli was also aware of those prior sales (JA3842; JA1578; JA1580-81), Jones and Schickli applied for a patent on Jones's method of making ice cream. Because the application was filed more than a

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[1] "Free flowing" ice cream pieces do not stick to each other.

[2] "JA" refers to the joint appendix filed with the Federal Circuit and not to the appendix filed with this Petition for a Writ of Certiorari.

year after the Festival Market sales, those sales were prior art for the purposes of determining whether the patent should issue.

Jones and Schickli did not disclose to the PTO the Festival Market sales. Schickli nevertheless argued for patentability on the grounds that the cited prior art did not teach or suggest serving a free-flowing product for consumption. (JA0490-JA0491). Moreover, Jones argued for patentability by submitting evidence of commercial success – providing to the PTO evidence of sales that took place *after* the undisclosed Festival Market sales. (JA0499-JA0509). Jones submitted a declaration to the PTO that not only failed to mention the 1987 Festival Market sales, but also affirmatively stated that his method with "initial sales ... in March 1988" (JA0505) was "the first method to allow serving of a completely free-flowing frozen alimentary dairy product for direct consumption by consumers" (JA0506). Thereafter, the subject patent (United States Patent 5,126,156) issued.

Jones founded a company to commercialize his method called Dippin' Dots, Inc. ("DDI"), which ultimately sued Petitioners for patent infringement. In defense, the Petitioners claimed that the patent was not infringed, invalid, and unenforceable. The Petitioners also counterclaimed for *Walker Process* fraud.

The district court granted summary judgment of non-infringement. Moreover, in discovery, the previously undisclosed Festival Market sales were uncovered. Based on those sales, the jury found the patent invalid. The jury also found that, in connection with the Festival Market sales, Jones and Schickli made

misrepresentations or omissions that violated their duty of candor to the PTO, that were material to the issuance of the patent, and that were made with intent to deceive the PTO. App. 25a-26a. In response to verdict questions that were properly predicated on jury instructions for *Walker Process* fraud, the jury also found that Jones and DDI committed antitrust violations. App. 26a-27a. Finally, the district court found the patent to have been procured through inequitable conduct.

On appeal, the Federal Circuit reversed regarding the *Walker Process* claim because it considered legally insufficient the jury's determination that Jones and Schickli intended to defraud the PTO. The Federal Circuit stated that the jury's determination of fraudulent intent was "built only upon DDI's omission of the Festival Market sales from the prosecution record." *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1347 (Fed. Cir. 2007). The Federal Circuit held that the materiality of the Festival Market sales could not be used to prove intent: a *Walker Process* claimant "**must prove deceptive intent independently.**" *Id.* at 1348 (emphasis added).

The Federal Circuit's holding – that a patent owner enjoys antitrust immunity unless fraudulent intent is proven independently of materiality and knowledge of materiality – alters the boundary line established by this Court to balance patent law and antitrust law, thereby destroying that harmonization and promoting anti-competitive fraudulent conduct. Moreover, the Federal Circuit's reasoning regarding *Walker Process* directly conflicts with its own

reasoning on the relationship between materiality and intent for the purposes of inequitable conduct.

In short, the effect of the Federal Circuit's holding is that a patentee now enjoys antitrust immunity in asserting a fraudulently obtained patent unless he or she exhibits an extraordinary level of fraudulent intent – much more than that contemplated by this Court in *Walker Process*. The Petitioners respectfully submit that the Federal Circuit's decision is in direct conflict with *Walker Process* because it substantially and improperly expands the scope of antitrust immunity provided by the patent laws and thus impermissibly diminishes competition.

REASONS FOR GRANTING THE PETITION

This Court should grant this petition for writ of certiorari to correct the Federal Circuit's erroneous decision that materiality of intentionally undisclosed pre-critical-date prior art – particularly a patent applicant's knowledge of that materiality – may be insufficient evidence of fraudulent intent to support a jury verdict of *Walker Process* fraud.

I. The Federal Circuit's Decision Conflicts with the Court's Precedents and Policies.

The decision below directly conflicts with *Walker Process Equipment, Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965), as well as the policies stated in other Supreme Court precedents.[3]

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[3] Both *Walker Process* and the instant case involve the failure to disclose material pre-critical sales to the PTO. In *Walker Process*,

In *Walker Process*, the Court held that a patent owner normally enjoys a "limited exception to the prohibitions of § 2 of the Sherman Act." *Walker Process*, 382 U.S. at 176. The *Walker Process* Court noted, however, that this immunity is not absolute: "knowingly and willfully misrepresenting facts to the Patent Office . . . would be sufficient to strip [a patent owner] of its exemption from the antitrust laws." Justice Harlan concurred, stating that the Court's decision was "aimed, of course, at achieving a suitable accommodation in this area between the differing policies of the patent and antitrust laws." *Id.* at 179. Justice Harlan noted that providing for antitrust liability for fraudulently obtained patents was consistent with the patent laws and policies:

> To hold, as we do, that private suits may be instituted under § 4 of the Clayton Act to recover damages for Sherman Act monopolization knowingly practiced under the guise of a patent procured by deliberate fraud,

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the failure to disclose also involved an affirmative misrepresentation of fact because the patent applicant stated under oath that he was aware of no prior sales or public uses. The instant case, as characterized by the Federal Circuit, only involves an *omission* of material pre-critical date sales. *See Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1347 (Fed. Cir. 2007). This is in part because the requirement of an oath concerning no prior sales and public uses was dropped by the PTO between the time when *Walker Process* was decided and the time when the '156 Patent was prosecuted. The current absence of such a requirement, and therefore the ease of which an applicant now can avoid an affirmative misrepresentation regarding pre-critical-date sales and public uses, underscores the need for this Court to explain when an omission is fraudulent and may result in antitrust liability.

> cannot well be thought to impinge upon the policy of the patent laws to encourage inventions and their disclosure. Hence, as to this class of improper patent monopolies, antitrust remedies should be allowed room for full play.

Id. at 179-80.[4]

Significantly, in establishing the proper balance between patent and antitrust, the Court did not provide a special, limited definition of "fraud" requiring that determinations of fraudulent intent and materiality be hermetically sealed from one another. To the contrary, more than one hundred twenty years ago in a seminal case on fraud in the insurance context, this Court recognized the important relationship between materiality, knowledge of materiality, and intent to deceive:

> A false answer as to any matter of fact material to the inquiry, knowingly and wilfully made, with intent to deceive the insurer, would be fraudulent. If it accomplished its result, it would be a fraud effected; if it failed, it would be a

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[4] The U.S. Department of Justice and the Federal Trade Commission recently echoed the Court's statement that patent law and antitrust law should be properly balanced, issuing a lengthy report on the subject. U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007), *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetition rpt0704.pdf. The Report notes that certain types of patent activity can result in antitrust liability and that "[c]ourts have recognized that patents, similar to other property rights, have limits, and these limits are narrowly and strictly confined to the precise terms of the grant." *Id.* at 21.

> fraud attempted. **And if the matter were material and the statement false, to the knowledge of the party making it, and wilfully made, the intention to deceive the insurer would be necessarily implied, for the law presumes every man to intend the natural consequences of his acts.** No one can be permitted to say, in respect to his own statements upon a material matter, that he did not expect to be believed; and if they are knowingly false, and wilfully made, the fact that they are material is proof of an attempted fraud, because their materiality, in the eye of the law, consists in their tendency to influence the conduct of the party who has an interest in them, and to whom they are addressed.

Claflin v. Commonwealth Ins. Co., 110 U.S. 81, 95 U.S. (1884) (emphasis added).

The Court's discussion of the interplay between materiality and intent in *Claflin* is grounded in common sense. If a patent applicant could not know that an undisclosed reference is material to patentability, then no intent to deceive should be inferred. Regardless of how highly material the reference turns out to be, materiality does not prove deceptive intent due to the applicant's inability to know of the materiality. If a patent applicant knows that a reference is highly material and intentionally fails to disclose it, however, then such knowledge and failure to disclose should strongly suggest high intent to deceive. Proof of intent by reference to materiality is particularly important with deceptions related to omissions, which, by definition, do not involve affirmative misstatements.

The Federal Circuit's decision in the instant case, however, prevents a court from considering materiality in determining whether a patentee acted with fraudulent intent, thereby changing the balance between antitrust law and patent law established by the Court in *Walker Process*. In doing so, the Federal Circuit distorts the patent laws and disregards the antitrust laws. Indeed, the Federal Circuit's opinion effectively holds that subjecting to antitrust scrutiny cases involving a patent procured through common-law fraud – but not satisfying the Federal Circuit's heightened fraud requirements – would somehow "impinge upon the policy of the patent laws to encourage inventions." *Walker Process*, 382 U.S. at 179-80. Plainly, the patent laws are not concerned with protecting patents obtained through common-law fraud.

Furthermore, the Federal Circuit fails to recognize the public's interest in preventing monopolies that are not based on legitimately obtained patents. In *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (U.S. 1945), this Court stated:

> The possession and assertion of patent rights are "issues of great moment to the public." *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 246. *See also Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 665; *Morton Salt Co. v. Suppiger Co., supra*; *United States v. Masonite Corp.*, 316 U.S. 265, 278. A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the

"Progress of Science and useful Arts." At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.

...

Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an **uncompromising duty** to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. *Cf. Crites, Inc. v. Prudential Co.*, 322 U.S. 408, 415. This duty is not excused by reasonable doubts as to the sufficiency of the proof of the inequitable conduct nor by resort to independent legal advice. Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. **Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies.** Only in that way can the Patent Office and the public escape from being classed among the "mute and helpless victims of deception and fraud." *Hazel-Atlas Glass Co. v. Hartford-Empire Co., supra*, 246.

Id. at 815-17 (emphasis added).

The Federal Circuit's approach also conflicts with this Court's strong policy of discouraging fraudulent activity. *See Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 217 (1976) (Blackmun dissenting) ("This is consistent with Congress' intent, repeatedly recognized by the Court, that securities legislation enacted for the purpose of avoiding frauds be construed 'not technically and restrictively, but flexibly to effectuate its remedial purposes.'") (citing *SEC v. Capital Gains Research Bureau*, 375 U.S. 180, 195 (1963); *Superintendent of Insurance v. Bankers Life & Cas. Co.*, 404 U.S. 6, 12 (1971); *Affiliated Ute Citizens v. United States*, 406 U.S. 128, 151 (1972)).

Ultimately, if the decision below is not corrected, then *Walker Process* fraud will be extremely difficult, if not impossible, to prove, particularly when a patent applicant omits material information. For example, in the case of a pre-critical-date sale or public use, the patent applicant need only avoid making a misrepresentation. The current Federal Circuit jurisprudence therefore tends to have the perverse effect of encouraging applicants *not* to disclose or mention pre-critical-date sales or public uses if they want to avoid antitrust liability.

The Federal Circuit's decision erodes the protections of the antitrust laws and promotes the use of fraudulently obtained patents to commit antitrust violations. The resources of the PTO are already stretched thin – with examiners on average spending only 18 hours on each patent application, Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95

Nw. U. L. Rev. 1459, 1500 (2001). Without sufficient inducement for patent applicants to disclose information, the PTO may not discover invalidating prior art independently, and patent owners may be able to use invalid patents to unfairly compete.

In light of the conflict between the decision below, *Walker Process*, and the numerous Supreme Court decisions noted above, Petitioners respectfully request that the Court grant this Petition.

II. The Federal Circuit's Inconsistent Jurisprudence Regarding Fraudulent Intent Is Similar to a Circuit Split.

Because the Federal Circuit has exclusive jurisdiction over claims arising under the patent laws – and because *Walker Process* fraud generally arises as a counterclaim – a circuit split may not develop regarding the standards for proving *Walker Process* fraud.[5] A close proxy of a circuit split, however, is present: the Federal Circuit determines fraudulent intent differently when reviewing the patent law defense of inequitable conduct[6] than when reviewing the antitrust claim of *Walker Process* fraud.

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[5] The Federal Circuit has decided that "whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." *Nobelpharma Ab v. Implant Innovations*, 141 F.3d 1059, 1068 (Fed. Cir. 1998).

[6] Inequitable conduct is a defense to a claim of patent infringement that, if successful, renders the patent unenforceable.

When determining fraudulent intent for purposes of inequitable conduct, the Federal Circuit holds that courts may consider materiality. Consequently, for purposes limited to the patent law, the Federal Circuit determines fraudulent intent consistent with the common-law definition of fraud, thereby recognizing that patent policy is not promoted by allowing suit on patents obtained through common-law fraud. As noted above, however, the Federal Circuit requires a higher standard of fraud to submit a patent owner to antitrust scrutiny.

In general, the Federal Circuit holds that "[i]nequitable conduct is a broader, more inclusive concept" than *Walker Process* fraud. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998). More specifically, "a conclusion of inequitable conduct may be based on evidence of a lesser misrepresentation or an omission, such as omission of a reference that would merely have been considered important to the patentability of a claim by a reasonable examiner." *Id.* at 1070. The Federal Circuit has explained the distinction as follows:

> A finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct. Moreover, unlike a finding of inequitable conduct, a finding of *Walker Process* fraud may not be based upon an equitable balancing of lesser degrees of materiality and intent. Rather, it must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, i.e., that the patent would not have issued but for the

> misrepresentation or omission. Therefore, for an omission such as a failure to cite a piece of prior art to support a finding of *Walker Process* fraud, the withholding of the reference must show evidence of fraudulent intent. A mere failure to cite a reference to the PTO will not suffice.

Id. at 1070-71 (citation omitted).

A lower threshold for inequitable conduct than *Walker Process* fraud does not create jurisprudential inconsistencies *per se*. Inequitable conduct renders a patent unenforceable, while *Walker Process* fraud subjects a patent owner to antitrust scrutiny. Less troublesome conduct reasonably justifies less severe punishment.

In the decision below, however, the Federal Circuit went further than requiring different *levels* of fraudulent intent for the purposes of inequitable conduct and *Walker Process* fraud, holding that different types of *evidence* must be used. The Federal Circuit held that, for *Walker Process* fraud, intent cannot be shown using materiality or the applicant's knowledge of materiality. For inequitable conduct, on the other hand, the applicant's knowledge of materiality of an omitted reference may demonstrate a *high* level of fraudulent intent. *See Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1367 (Fed. Cir. 2007) (holding that "a high degree of materiality, coupled with evidence that the applicant should have known of that materiality, creates a strong inference of an intent to deceive"); *Molins Plc v. Textron*, 48 F.3d 1172, 1180 (Fed. Cir. 1995) (noting that "[f]ailure to cite to the PTO a material reference cited elsewhere in the world

justifies a strong inference that the withholding was intentional"); *Critikon, Inc. v. Becton Dickinson Vascular Access*, 120 F.3d 1253, 1256 (Fed. Cir. 1997) (holding that a "relatively high degree of intent may be inferred" when material is withheld that relates to a point of novelty identified during prosecution).

The same evidence should be relevant to determining fraudulent intent for patent defenses and antitrust claims. The Federal Circuit's disparate treatment is entrenched as demonstrated by the Federal Circuit cases noted above, and will not be corrected without direction from this Court.

III. Applying the Correct Legal Standard, the Federal Circuit Would Have Affirmed the Jury's *Walker Process* Verdict.

In the instant case, there *was* independent and clear evidence that Jones and Schickli knew that the Festival Market sales were material. In particular, Schickli made a specific argument for patentability that the prior art did not teach or suggest serving frozen ice cream product free flowing for consumption. However, the evidence proved that Schickli knew Jones had sold ice cream product free flowing for consumption at the Festival Market. Because these sales were long before the critical date, they were prior art. Indeed, the jury found that the patent was obvious in light of the Festival Market sales, and the Federal Circuit affirmed that determination.

Jones also demonstrated that he was aware of the materiality of the Festival Market sales when, to overcome an obviousness rejection, Jones submitted a

declaration of commercial success that "wholly neglected to disclose the Festival Market sales to the PTO, . . . [yet] enthusiastically touted sales made after the critical date." *Dippin' Dots, Inc.*, 476 F.3d at 1346. In fact, Curt Jones claimed that initial sales for his claimed method began in 1988, a year *after* the Festival Market sales, and that the claimed method was the first method to serve ice cream free flowing for consumption. Since Jones had served ice cream free flowing for consumption in 1987, Jones's declaration statement was, in the words of the district court, "absolutely, unequivocally and unquestionable false." App. 54a.

Thus, the evidence is clear that Jones and Schickli knew the Festival Market sales were highly material. Jones and Schickli knew ice cream product had been served free flowing for consumption at Festival Market and knew that service of free flowing ice cream for consumption had been identified by them as the point of novelty over the prior art. On these facts, the jury was entitled to find – and in fact did find – that Jones and Schickli intended to defraud the PTO.

Thereafter, DDI used its fraudulently obtained patent to monopolize the field of cryogenically frozen ice cream in the United States. Indeed, DDI's lawsuits successfully drove a number of its competitors out of business, including one of the Petitioners (Frosty Bites Distribution, LLC). It was only when Petitioners successfully rendered the subject patent invalid and unenforceable that healthy competition finally

emerged.[7] Petitioners respectfully submit that DDI now should be held to account for that conduct under the antitrust laws.

CONCLUSION

For the forgoing reasons, this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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[7] Now several companies compete in the field of cryogenically frozen ice particles, such as Mini Melts, Inc., Mollicoolz, LLC, and Dippin' Dots, Inc.

and Frosty Bites, Inc. (now known as Mini Melts, Inc.)

(Any footnotes trail end of each document)

2005-1330, -1582

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

DIPPIN' DOTS, INC. and CURT D. JONES, Plaintiffs-Appellants, v. THOMAS R. MOSEY, DOTS OF FUN, INTERNATIONAL LASER EXPRESSIONS, INC. (also known as I.L.E., Inc.), Defendants-Cross Appellants, and NICHOLAS ANGUS, Defendant/Counterclaimant-Cross Appellant, and FROSTY BITES DISTRIBUTION LLC, Defendant-Appellee, and FROSTY BITES DISTRIBUTOR OF FLORIDA, INC., FROSTY BITES DISTRIBUTOR OF GEORGIA, INC., FROSTY BITES OF MICHIGAN, INC., J&J CONCESSIONS OF NEW JERSEY, INC., FROSTY BITES ICE CREAM COMPANY, LLC, FROSTY BITES SOUTH, INC., INTERNATIONAL ASSOCIATION OF AMUSEMENT PARKS AND ATTRACTIONS, FROSTY BITES OF NEW YORK, LLC, and FROSTY BITES ICE CREAM DEVELOPMENT, LLC, Defendants, v. F. ROBERT ESTY, JR., BARRY JAY BASS, VICTOR BAUER, JACK MILLER, DANIEL KILCOYNE, SHAWN P. KILCOYNE, and DANIEL DOPKO, Counterclaim Defendants, and FROSTY BITES, INC. (now known as Mini Melts, Inc.), Counterclaim Defendant-Cross Appellant.

February 9, 2007, Decided

COUNSEL: Daniel J. Warren, Sutherland Asbill & Brennan LLP, of Atlanta, Georgia, argued for plaintiffs-appellants, Dippin Dots, Inc. and Curtis D. Jones. With him on the brief were Candice C. Decaire, Erin C. Witkow, and Troy R. Covington. Of counsel was Todd Stockwell, Stockwell & Associates, of Lexington, Kentucky.

Robert G. Oake, Jr., Oake Law Office, of Allen, Texas, and Rudolf O. Siegesmund, Siegesmund & Associates, of Dallas, Texas, argued for defendants-cross-appellants, Thomas R. Mosey et al., defendant/counterclaimant-cross appellant, Nicholas Angus, and counterclaim defendant-cross appellant, Frosty Bites, Inc. (now known as Mini Melts, Inc.).

Keith E. Broyles, Alston & Bird LLP, of Atlanta, Georgia, argued for defendant-appellee. With him on the brief were Stacey A. Mollohan and William R. Hubbard.

JUDGES: Before MAYER, RADER, and GAJARSA, Circuit Judges.

OPINION

GAJARSA, *Circuit Judge.*

This is a patent infringement and antitrust case dealing with a unique ice cream product. Plaintiffs Dippin' Dots, Inc. and Curt D. Jones (collectively "DDI") appeal from the district court's claim construction and summary judgment of noninfringement of U.S. Patent No. 5,126,156 ("the '156 patent") and from the judgment following jury trial that all claims of that patent are

obvious, that the patent is unenforceable due to inequitable conduct during prosecution, and that DDI violated the antitrust laws by asserting a patent that had been procured through fraud on the Patent Office. We affirm the judgments of noninfringement, obviousness, and unenforceability, but reverse as to the antitrust counterclaim.

I. BACKGROUND

A. *The Technology and Patent*

The '156 patent, covering subject matter invented by plaintiff Jones and exclusively licensed to plaintiff Dippin' Dots, is directed to a process for making a form of cryogenically prepared novelty ice cream product. Claim 1, the only independent claim, reads:

A method of preparing and storing a free-flowing, frozen alimentary dairy product, comprising the steps of:

[(1)] preparing an alimentary composition for freezing;

[(2)] dripping said alimentary composition into a freezing chamber;

[(3)] freezing said dripping alimentary composition into beads;

[(4)] storing said beads at a temperature at least as low as -20 degrees F. so as to maintain said beads free-flowing for an extended period of time;

[(5)] bringing said beads to a temperature between substantially -10 degrees F. and -20 degrees F. prior to serving; and

[(6)] serving said beads for consumption at a temperature between substantially -10 degrees F. and -20 degrees F. so that said beads are free flowing when served.'156 patent col.6 ll.41-57 (numbering added for reference). DDI has commercialized this process. The ice cream it produces, sold under the Dippin' Dots brand, is known to patrons of amusement parks, stadiums, shopping malls, and the like.

The initial application that eventually issued as the '156 patent, filed on March 6, 1989, omitted the final "serving" step from Claim 1. The examiner rejected all of the claims as obvious in light of Canadian Patent No. 964,921, of Aref et al. DDI appealed the rejections to the Board of Patent Appeals and Interferences ("Board"), which affirmed the rejection. DDI then filed a continuation application, amending Claim 1 by adding the "serving" step. The examiner again rejected over the Aref reference, noting that "dependent on the food product being served," it would be obvious to serve the product in a cold, free-flowing state. DDI then submitted a declaration pursuant to 37 C.F.R. § 1.132 in which it submitted evidence of the significant commercial success of its method. It argued that its commercial success should weigh against a finding of obviousness. *See Graham v. John Deere Co.*, 383 U.S. 1, 17-18, 86 S. Ct. 684, 15 L. Ed. 2d 545 (1966) (noting that commercial success is one of the "secondary considerations" that may serve as "indicia of . . . nonobviousness"). The examiner agreed and the '156 patent issued in June 1992.

B. *The Festival Market Sales*

Much of the debate in this case centers on the import of sales made at the Festival Market mall in Lexington, Kentucky, more than a year before DDI filed its patent application. Sales made more than one year before the patent's priority date implicate the on-sale bar of 35 U.S.C. § 102(b). For the '156 patent, this critical date is March 6, 1988. Starting on July 24, 1987, Jones sold cryogenically-prepared, largely beaded ice cream at the Festival Market. During Jones's time at Festival Market, which lasted at least until July 29th, over 800 customers purchased his beaded ice cream and others received free samples. The customers were permitted to leave with the product and were not restricted by any kind of confidentiality agreement. Jones later testified that his main goal at the Festival Market was to "get . . . test-marketing information" and not to further develop technical aspects of his product such as particular temperature ranges for storage and service.

It is undisputed that the Festival Market sales were never disclosed to the Patent and Trademark Office ("PTO") during prosecution of the '156 patent. The declaration of commercial success which ultimately persuaded the examiner to grant the patent contained a sworn statement by Jones that "[t]he initial sales were in March of 1988," which was on or after the critical date.

Jones testified that at Festival Market he only practiced the first three steps of the claimed method, not the storing, bringing, or serving steps. He testified that he considered the evidence of what had happened at Festival Market to be irrelevant to patentability.

The attorney who prosecuted the '156 patent, Warren Schickli, testified that he considered the sales to have been experimental since the process as practiced at Festival Market could not be feasibly commercially exploited. He also testified that the Festival Market ice cream was not sold for "direct consumption" under the meaning of Claim 1, because the ice cream was too cold to eat comfortably when initially given to the consumer.

C. *Prior Litigation*

The controversy in this case began when several of DDI's distributors severed their relationship, found alternative manufacturing sources, and entered into competition against DDI. DDI initiated a series of patent infringement lawsuits against its new competitors in various judicial districts. In this appeal, the defendants fall into two primary categories: the "manufacturing parties" who make the competing ice cream product and the "distributing parties" who sell it to consumers.[1] The defendants counterclaimed for violation of § 2 of the Sherman Act due to DDI's allegation of patent infringement based on a fraudulently acquired patent. This type of antitrust claim has become known as a "*Walker Process*" claim, named for the Supreme Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 177, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965). The various suits were consolidated by the Judicial Panel on Multi-District Litigation for pretrial proceedings before the United States District Court for the Northern District of Georgia, with Judge Thomas W. Thrash presiding. That court adopted in large part an earlier-recommended claim construction by a special master. *In re Dippin' Dots Patent Litig.*,

249 F. Supp. 2d 1346, 1366 (N.D. Ga. 2003). It issued summary judgment of noninfringement both literally, *id.* at 1368, and via the doctrine of equivalents, *id.* at 1370-71. It refused to grant summary judgment to any party on invalidity, *id.* at 1362, 1364, or on inequitable conduct, *id.* at 1365.[2]

After the pretrial proceedings in the Northern District of Georgia were completed, the case was remanded to the United States District Court for the Northern District of Texas. Judge Thrash, sitting by designation, continued to preside over the Northern District of Texas proceedings. That court conducted a jury trial on the issues of invalidity, unenforceability, and antitrust violations by DDI. By special verdict, the jury found that the sales by Jones prior to March 1988 could be asserted against the patent as prior art and that all claims of the '156 patent were invalid as obvious. The jury also found that both Jones and Schickli had, with intent to deceive, made material misrepresentations or omissions in violation of the duty of candor to the PTO. It also determined that defendants Mini Melts, Inc. and Frosty Bites Distribution had proven all required elements of their antitrust counterclaim, including the requisite fraud on the PTO. However, it found no antitrust damages, granting the counterclaim plaintiffs zero dollars in damages on their Sherman Act counterclaim. The district court denied DDI's motion for judgment notwithstanding the verdict (JMOL), finding that there was sufficient evidence for the jury to find all claims obvious and that DDI had withheld a material reference with the deceptive intent required for *Walker Process* liability. The district court then weighed that same evidence of intent and materiality itself and found the patent unenforceable due to

inequitable conduct before the PTO. In its final judgment dated February 28, 2005, it awarded attorney fees under the Clayton Act to defendant Frosty Bites Distribution ("FBD") in the amount of $ 676,675.46.

The defendants appealed to this court on March 25, 2005. After the notice of appeal was filed, the district court made two additional rulings. On August 4, 2005, it granted defendant Mosey's motion for attorney fees under the Clayton Act, which had been outstanding at the time of the final judgment. On August 18, 2005, FBD moved for an amendment of the attorney fee order to add fees under 35 U.S.C. § 285, the patent statute's fee-shifting provision. We deactivated the appeal while that motion was pending. On October 13, 2005, the district court granted FBD's motion and awarded it an additional $ 504,158.16 in fees under § 285. On November 18, 2005, this court reactivated the appeal and set a briefing schedule. DDI's opening brief included challenges to the August 4 and October 13 fee awards. A motions panel of this court ruled that, since DDI had failed to amend its March 25 notice of appeal to include references to the later district court orders, we lacked jurisdiction to hear DDI's challenge to those later orders. *Dippin' Dots v. Mosey*, No. 05-1330, slip op. at 3 (Fed. Cir. May 1, 2006). DDI was directed to file a replacement brief omitting the arguments held to be jurisdictionally barred. *Id.*, slip op. at 4.

In its amended brief, DDI appeals the claim construction and summary judgment of noninfringement, the refusal to overturn the jury verdict of obviousness and liability under the antitrust laws, the finding of inequitable conduct, and the award of attorneys' fees under the Clayton Act granted to

FBD. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

II. DISCUSSION

A. *Claim Construction and Infringement*

DDI challenges the summary judgment of noninfringement on the grounds that the district court[3] construed the claims of the '156 patent erroneously. Its primary arguments relate to the appropriate reach of the term "beads" in Claim 1, which the district court construed to mean "small frozen droplets . . . which have a smooth, spherical (round or ball shaped) appearance." The district court's construction also excluded processes which produce any "irregular or odd shaped particles such as 'popcorn.'" The district court correctly found that the claim steps mentioning "beads" were limited to covering processes that produce beads and only beads. The accused process produces both spheres and irregular particles, so under this construction, the defendants do not infringe. DDI objects both to the definition of "beads" and to the district court's refusal to use the word "comprising" to extend the coverage of the claim beyond a beads-only process. As to the definition of "beads," the district court correctly noted that the written description specifically describes "beads" as having a "smooth, spherical appearance." '156 patent col.5 ll.22-23. Indeed, DDI argued to the Special Master before whom the construction issue was originally presented that a "bead" was "a small round ball or round drop." There is no error in the district court's definition of this term.

As to DDI's second argument, we acknowledge that the term "comprising" raises a presumption that the list of

elements is nonexclusive. *See Genentech, Inc. v. Chiron Corp.*, 112 F.3d 495, 501 (Fed. Cir. 1997). However, "'[c]omprising' is not a weasel word with which to abrogate claim limitations." *Spectrum Int'l, Inc. v. Sterilite Corp.*, 164 F.3d 1372, 1380 (Fed. Cir. 1998)."Comprising" appears at the beginning of the claim-"comprising the steps of"-and indicates here that an infringing process could practice other steps in addition to the ones mentioned. Those six enumerated steps must, however, all be practiced as recited in the claim for a process to infringe. The presumption raised by the term "comprising" does not reach into each of the six steps to render every word and phrase therein open-ended-especially where, as here, the patentee has narrowly defined the claim term it now seeks to have broadened. The district court's limitation of the claim scope to exclude processes that produce some irregularly shaped particles is correct.

DDI also objects to the district court's definition of "free flowing," but the court did not rely on that definition to support its summary judgment ruling. *Dippin' Dots*, 249 F. Supp. 2d at 1367 ("Since Defendants' process produces beads and irregularly shaped particles of ice cream, Defendants' method does not literally infringe the '156 patent."). Since that basis of the district court's decision was based on a properly construed claim term, we affirm the summary judgment of no literal infringement. DDI does not appeal the summary judgment of noninfringement under the doctrine of equivalents, so the court need not consider the doctrine of equivalents.

B. *Obviousness*

The case was transferred to the Northern District of Texas and tried to a jury, which found all claims of the '156 patent to be obvious. When reviewing a district court's JMOL determination as to obviousness, "[t]his court reviews a jury's conclusions on obviousness, a question of law, without deference, and the underlying findings of fact, whether explicit or implicit within the verdict, for substantial evidence." *LNP Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1353 (Fed. Cir. 2001). Those factual underpinnings include the scope and content of the prior art, differences between the prior art and the claims at issue, and the level of ordinary skill in the art. *Graham*, 383 U.S. at 17. Our precedent requires that the party urging obviousness demonstrate a teaching, suggestion, or motivation to combine references. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1351 (Fed. Cir. 1998). This test is a flexible one which may find motivation to combine in the knowledge of one skilled in the art or in the nature of the problem to be solved. *Alza Corp. v. Mylan Labs., Inc.*, 464 F.3d 1286, 1291 (Fed. Cir. 2006). Secondary indicia of nonobviousness, such as commercial success, long-felt need, or failure of others are also relevant. *Graham*, 383 U.S. at 17-18.

To find obviousness in light of the Festival Market sales requires two conclusions: first, those sales must have been in the prior art; second, the process practiced at Festival Market combined with any other relevant prior art must render the claims of the '156 patent obvious. Substantial evidence existed for the jury to find the facts necessary to support both conclusions.

The first question is whether the sales at Festival Market constitute prior art that can be asserted against

the '156 patent claims in an obviousness analysis. It is undisputed that those sales occurred before the patent's critical date of March 6, 1988. Sales made before the critical date would render invalid any claims that they anticipate, but the defendants do not allege here that the Festival Market sales embodied every element of any claim of the '156 patent. Instead, they argue that the claims are obvious in view of the Festival Market sales combined with the prior art cited by the examiner during prosecution. Those sales may indeed be considered when determining whether the claims are invalid for obviousness. The public sale of goods produced by a process more than one year before a patent is filed places that process in the § 102(b) prior art. *See Invitrogen Corp. v. Biocrest Mfg.*, 424 F.3d 1374, 1382 (Fed. Cir. 2005) (citing *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946) (Learned Hand, J.)). Prior art under the § 102(b) on-sale bar is also prior art for the purposes of obviousness under § 103. *See LaBounty Mfg. v. United States ITC*, 958 F.2d 1066, 1071 (Fed. Cir. 1992) ("Section 102(b) may create a bar to patentability . . . in conjunction with [§ 103], if the claimed invention would have been obvious from the on-sale device in conjunction with the prior art."). DDI argues that the sales at Festival Market were experimental in nature and therefore avoid the on-sale bar. In light of Jones's testimony that his purpose was to determine the marketability of his ice cream product and not to improve it technically, the jury could have found facts supporting a conclusion that the sales were not experimental. *See In re Smith*, 714 F.2d 1127, 1135 (Fed. Cir. 1983) ("The experimental use exception . . . does not include market testing where the inventor is attempting to gauge consumer demand for his claimed

invention."); *see also Paragon Podiatry Lab. v. KLM Lab.*, 984 F.2d 1182, 1193 (Fed. Cir. 1993). The Festival Market sales are therefore prior art citable against the patent claims for obviousness purposes.

The second question is whether the Festival Market sales, considered as prior art to the '156 patent, render its claims invalid for obviousness. We conclude that they do. The first three steps of the patented process (preparing, dripping, and freezing) were concededly practiced at Festival Market. The last two-bringing to a higher temperature and then serving at that temperature for direct consumption-were at least very closely approximated. No evidence of the exact temperature of any product served at Festival Market has been presented, but it would have been obvious in light of the activity there to measure that temperature and serve the product within an easily determined range of palatability. The fourth step, "storing" at a very cold temperature for an extended period of time, may not have been present, but extended cold storage was an obvious elaboration on the Festival Market sales in order to distribute and retail the product. The motivation for DDI to make these trivial modifications is readily apparent from the problem to be solved. Someone of ordinary skill in the art of ice cream retailing, seeking to commercially develop the inventive kernel found at Festival Market, would immediately seek the appropriate temperature ranges within which to store and serve the product. *See Alza*, 464 F.3d at 1291 (noting that teaching, motivation, or suggestion can come from nature of problem to be solved).

The jury could reasonably have found that the secondary factor of commercial success advanced by

Jones to obtain the '156 patent was obviated by the Festival Market sales. If the factors that led to DDI's later commercial success were largely present at Festival Market, later changes to the process encompassed by the '156 patent could reasonably be seen as not improving the prior art's commercial appeal much, if at all. *See J.T. Eaton & Co. v. Atlantic Paste & Glue Co.*, 106 F.3d 1563, 1571 (Fed. Cir. 1997) ("the asserted commercial success of the product must be due to the merits of the claimed invention beyond what was readily available in the prior art.").

The factual underpinnings implicit in the jury's verdict are supported by substantial evidence, and based on those facts, we affirm the judgment of obviousness.

C. *Inequitable Conduct*

We have stated that "[a] patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution." *Digital Control Inc. v. The Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006). The party urging unenforceability must show by clear and convincing evidence that the applicant met "thresholds of both materiality and intent." *Molins PLC v. Textron*, 48 F.3d 1172, 1178 (Fed. Cir. 1995). Where, as here, those factual findings were made by the district court, we review them for clear error. *Id.* The ultimate determination of inequitable conduct is committed to the sound discretion of the trial court. We review for abuse of that discretion. *Union Pac. Res. Co. v.*

Chesapeake Energy Corp., 236 F.3d 684, 693-94 (Fed. Cir. 2001).

The first prong of the inequitable conduct test, materiality, is clearly met here. As discussed *supra*, the Festival Market sales render the '156 patent invalid for obviousness. Had those sales been disclosed to the PTO, the patent may or may not have issued. At the very least, the existence of such sales prior to the critical date is a matter that "a reasonable examiner would have considered. . . important in deciding whether to allow the . . . application." *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1363 (Fed. Cir. 2003); *see also Digital Control*, 437 F.3d at 1316 (holding that "reasonable examiner" standard remains sufficient ground for inequitable conduct materiality even after 1992 amendment of 37 C.F.R. § 1.56).

The question of deceptive intent is a more difficult one, but we find no clear error in the district court's determination on this point. "'Smoking gun' evidence is not required in order to establish an intent to deceive . . . . Rather, this element of inequitable conduct[] must generally be inferred from the facts and circumstances surrounding the applicant's overall conduct." *Paragon Podiatry Lab. v. KLM Lab.*, 984 F.2d 1182, 1189 (Fed. Cir. 1993). We have noted that omission of sales made before the critical date is especially problematic:

Absent explanation, the evidence of a knowing failure to disclose sales that bear all the earmarks of commercialization reasonably supports an inference that the inventor's attorney intended to mislead the PTO. The concealment of sales information can be

particularly egregious because, unlike the applicant's failure to disclose, for example, a material patent reference, the examiner has no way of securing the information on his own.*Id.* at 1193. While DDI wholly neglected to disclose the Festival Market sales to the PTO, it enthusiastically touted sales made after the critical date as evidence of the commercial appeal of its process. That combination of action and omission permits an inference of the minimum, threshold level of intent required for inequitable conduct. The evidence to support a finding of intent may not be particularly strong here (a point we discuss further in Part II.D, *infra.*) However, the district court was permitted to balance the relatively weak evidence of intent together with the strong evidence that DDI's omission was highly material to the issuance of the '156 patent and to find that on balance, inequitable conduct had occurred.[4] Such a finding, as an exercise of the district court's equitable powers, is within its discretion. *See Molins*, 48 F.3d at 1178 ("Once threshold findings of materiality and intent are established, the court must weigh them to determine whether the equities warrant a conclusion that inequitable conduct occurred."). We perceive no abuse of discretion here. The district court's inequitable conduct finding is correct.

D. *Walker Process Antitrust Claim*

The defendants in this case counterclaimed against DDI for violation of § 2 of the Sherman Act, and the same jury that found the patent obvious found DDI liable on that counterclaim. Proof that a patentee has "obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office . . . [is] sufficient to strip [the patentee] of its exemption from the antitrust laws."

Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965). A party who asserts such a fraudulently obtained patent may be subject to an antitrust claim. If a patentee asserts a patent claim and the defendant can demonstrate the required fraud on the PTO, as well as show that "the other elements necessary to a § 2 case are present," the defendant-counterclaimant is entitled to treble damages under the antitrust laws. *Id.* at 175.

The first barrier for a *Walker Process* claimant to clear is the requirement that the patent be obtained through actual fraud upon the PTO. This question is governed by Federal Circuit law. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (*en banc* in relevant part). A finding of inequitable conduct does not by itself suffice to support a finding of *Walker Process* fraud, because "inequitable conduct is a broader, more inclusive concept than the common law fraud needed to support a *Walker Process* counterclaim." *Nobelpharma*, 141 F.3d at 1069. To demonstrate *Walker Process* fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct. *Id.* at 1070-71; *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1364 (Fed. Cir. 1998) (*Walker Process* claimant "must make a greater showing of scienter and materiality than when seeking unenforceability based on conduct before the Patent Office"). Furthermore, a finding of *Walker Process* fraud cannot result from an equitable balancing between the two factors; a strong showing of one cannot make up for a deficiency in the other. *Nobelpharma*, 141 F.3d at 1071. The difference in breadth between inequitable conduct and *Walker Process* fraud admits the possibility of a close case

whose facts reach the level of inequitable conduct, but not of fraud before the PTO. This is such a case.

The heightened standard of materiality in a *Walker Process* case requires that the patent would not have issued but for the patent examiner's justifiable reliance on the patentee's misrepresentation or omission. *C.R. Bard*, 157 F.3d at 1364. The defendants have established materiality even under this strict threshold, since the evidence supports a finding that the patent would not have issued if DDI had disclosed the Festival Market sales to the PTO. The difficulty comes in establishing that the omission of those sales was done with fraudulent intent. DDI did make certain statements to the PTO that would have been more completely accurate had it included information about the Festival Market sales. For instance, it suggested that its method was "the first method to allow serving of a completely free flowing frozen alimentary dairy product for direct consumption by consumers." That statement would have been more helpful to the PTO if it had also disclosed that the first free-flowing sales had arguably happened at Festival Market, but the statement was not actually false. Likewise, DDI argued against obviousness by pointing out that none of the cited references taught free-flowing service. Again, this statement would have better informed the PTO if it had clarified that elsewhere in the prior art, such service arguably existed, but again, the statement was true. The problem was not with its falsity but with its incompleteness.

Ultimately, the defendants' fraud case here is built only upon DDI's omission of the Festival Market sales from the prosecution record. While *Walker Process* intent

may be inferred from the facts and circumstances of a case, "[a] mere failure to cite a reference to the PTO will not suffice." *Nobelpharma*, 141 F.3d at 1071. This is not to say that an omission always reduces to "mere failure to cite." We acknowledged in *Nobelpharma* "that omissions, as well as misrepresentations, may in limited circumstances support a finding of *Walker Process* fraud . . . because a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation." 141 F.3d at 1070. We believe, though, that to find a prosecution omission fraudulent there must be evidence of intent separable from the simple fact of the omission. A false or clearly misleading prosecution statement may permit an inference that the statement was made with deceptive intent. For instance, evidence may establish that a patent applicant knew one fact and presented another, thus allowing the factfinder to conclude that the applicant intended by the misrepresentation to deceive the examiner. That is not the case with an omission, which could happen for any number of nonfraudulent reasons-the applicant could have had a good-faith belief that disclosure was not necessary, or simply have forgotten to make the required disclosure. In this case, DDI argues that it did not disclose the Festival Market sales to the PTO because it believed that the product there was made without practicing the "storing," "bringing," or "serving" steps of the claim within the specified temperature ranges, and that therefore the Festival Market sales were merely cumulative to other prior art references which also lacked those three steps. The jury was of course allowed to disbelieve or discount evidence tending to support this claim. However, the defendants submitted no evidence of their own-aside from the absence of the Festival Market sales from the

prosecution record-which affirmatively shows DDI's fraudulent intent. That intent cannot be shown merely from the absence of evidence which would come about from the jury's discounting DDI's explanation.

Nobelpharma serves as a good example of the sort of facts that do prove *Walker Process* fraud by omission. In that case, the inventors had transmitted to their Swedish patent agent a draft patent application which included a citation to a book written by the patentee in 1977. 141 F.3d at 1062. That book was eventually held to anticipate the patent. *Id.* at 1072. The agent "deleted all reference to the 1977 Book from the patent application that was ultimately filed in Sweden" and then also failed to mention the book in the U.S. application that led to the patent at issue. *Id.* at 1062. When pressed on the issue at trial, the agent "could not explain, even in retrospect, why he deleted all reference to the 1977 Book." *Id.* at 1072. We found that the evidence of actual deletion by the patent agent gave the jury reasonable ground to find intent to defraud by the patentees. *Id.*

There is no similarly strong evidence that the omission in this case was fraudulent. It might be argued that because the omitted reference was so important to patentability, DDI must have known of its importance and must have made a conscious decision not to disclose it. That argument has some force, but to take it too far would be to allow the high materiality of the omission to be balanced against a lesser showing of deceptive intent by the patentee. Weighing intent and materiality together is appropriate when assessing whether the patentee's prosecution conduct was inequitable.

Molins, 48 F.3d at 1178. However, when *Walker Process* claimants wield that conduct as a "sword" to obtain antitrust damages rather than as a mere "shield" against enforcement of the patent, *Nobelpharma*, 141 F.3d at 1070, they must prove deceptive intent independently. The defendants have not done so here to the extent necessary for a reasonable jury to find *Walker Process* fraud. The finding of fraud on the PTO is therefore reversed.

DDI also argues that the antitrust judgment must be reversed because the jury was not presented with sufficient evidence of the definition of the relevant market. Fraudulent acquisition of the asserted patent strips the *Walker Process* defendant[5] of its antitrust immunity, but that is the beginning, not the end, of the inquiry. The counterclaimant must also show the basic elements of an antitrust violation defined by the regional circuit's law, including that the patentee's behavior was directed to a relevant product market. *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1363 (Fed. Cir. 2004), *rev'd on other grounds*, 546 U.S. 394, 126 S. Ct. 980, 163 L. Ed. 2d 974 (2006).[6] In this case, DDI's antitrust immunity remains intact due to insufficient evidence of fraud. We therefore reach neither DDI's argument on this point nor the defendants' argument that DDI waived the market definition issue by failing to raise it below.

E. *Attorney Fees*

With the judgment of antitrust liability reversed, the grant of attorney's fees under § 4 of the Clayton Act must be vacated. As mentioned *supra*, a motions panel of this court has found that we lack jurisdiction to hear

DDI's challenge of that fee grant as to defendant Mosey. *Dippin' Dots v. Mosey*, No. 05-1330, slip op. at 3 (Fed. Cir. May 1, 2006). However, our vacatur of fees is entirely derivative of our ruling on the merits, not based on an acceptance of DDI's jurisdictionally barred direct challenge to the fee award. The vacatur therefore extends to all defendants, including Mosey.[7]

DDI argued as a separate ground for reversal of the attorney fee award that a jury verdict indicating zero dollars in antitrust damages cannot support a Clayton Act fee award. Since the judgment of liability is reversed, we do not reach this argument.

The district court indicated that if it were to reduce its Clayton Act fee grant, it would increase the fees under the Patent Act to compensate. With the Clayton Act fee grant vacated, the district court may review the award of fees under the patent statute. On remand, the district court may determine whether and to what extent fees under 35 U.S.C. § 285 are appropriate.

III. CONCLUSION

We affirm the findings of noninfringement, obviousness, and unenforceability due to inequitable conduct. We reverse the district court's denial of JMOL as to the antitrust counterclaim, vacate the grants of attorneys' fees under the Clayton Act, and remand for the district court to consider whether an additional fee award under the patent statute is available.

AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, AND REMANDED

No costs.

Footnotes

1 The manufacturing parties are Defendants Thomas Mosey, Dots of Fun, International Laser Expressions, Inc., Nicholas Angus, and Frosty Bites, Inc. (now known as Mini Melts, Inc.). Defendant Frosty Bites Distribution, its various local affiliates, and individuals such as founder Victor Bauer are the distributing parties. The issues in this case are not generally resolved in a manner unique to particular defendants, so we refer collectively to "the defendants" where appropriate.

2 The district court also granted summary judgment in favor of the defendants as to claims of trade dress infringement, *id.* at 1374-75, and trade secret violations, *id.* at 1376. It granted summary judgment to the plaintiffs on a minor contract issue. *Id.* at 1378. These issues are not before us on appeal. The trade dress issue was appealed separately to the Eleventh Circuit, which affirmed. *Dippin' Dots, Inc. v. Frosty Bites Distrib.*, 369 F.3d 1197 (11th Cir. 2004).

3 As described *supra*, the claim construction and summary judgment phases of this litigation were handled by the United States District Court for the Northern District of Georgia. "The district court" as used in this section refers to that court.
4The district court characterized DDI's intent to deceive as "of a high nature." We disagree, but believe that in light of the high materiality of the nondisclosure, inequitable conduct can still be found here even though the evidence reveals less than an egregriously willful

intent to deceive.

5 Here that defendant is the plaintiff DDI, which is defending against a *Walker Process* counterclaim.

6 *Unitherm* applied Tenth Circuit antitrust law. *Id.* (citing *United States v. AMR Corp.*, 335 F.3d 1109, 1113 (10th Cir. 2003); *Telecor Communs., Inc. v. Southwestern Bell Tel. Co.*, 305 F.3d 1124, 1130-31 (10th Cir. 2002)). Fifth Circuit law also requires proof of a relevant market. *Doctor's Hosp. v. Se. Med. Alliance*, 123 F.3d 301, 311 (5th Cir. 1997).

7 Defendants move to strike the portions of DDI's amended brief which argue that the fee awards should be vacated if DDI prevails on the merits. Br. of Mosey et al. at 1; Br. of Frosty Bites Distribution LLC at 1. Their objections are denied.

10/20/2003

MDL DOCKET NO. 1377
CIVIL ACTION FILE NO. 3:96-cv-1959-x(tx)
1:01-cv-262-TWT (GA)

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

IN RE DIPPIN' DOTS, INC., PATENT LITIGATION

VERDICT

PATENT INVALIDITY

1. Were any sales of cryogenically frozen ice cream by Curt Jones before March 6, 1988 prior art?

Yes.

2. Are claims of the '156 patent invalid as obvious?

Yes.
All

FRAUD ON THE PATENT OFFICE

3. Did Curt Jones make a misrepresentation or omission that violated the duty of candor to the Patent Office?

Yes.

4. Did Warren Schickli make a misrepresentation

or omission that violated the duty of candor to the Patent Office?

Yes.

5. Were the misrepresentations or omissions material to the issuance of the patent?

Yes.

6. Were the misrepresentations or omissions made with the intent to deceive the Patent Office?
Yes.

ANTITRUST CLAIMS

7. Did Curt Jones or Warren Schickli make misrepresentations or omissions that violated their duty of candor, that were material to the issuance of the patent, and that were made with the intent to deceive the Patent Office?

Yes.

8. Have the Defendants shown that the relevant market is the manufacture and sale of cryogenically frozen pieces of ice cream in the United States?

Yes.

9. Did the Plaintiffs possess monopoly power in the relevant market?

Yes.

10. Did the Plaintiffs willfully acquire or maintain monopoly power through restrictive or exclusionary conduct?

Yes.

12. Did the Plaintiffs' monopolization the relevant market directly and proximately cause damage to the business or property of the Defendants?

Yes.

13. The actual damage of Defendants Mini Melts Inc. f/k/a Frosty Bites, Inc. are $0

14. The actual damages of Defendant Frosty Bites Distribution are $0

This 20 day of October, 2003.

FOREPERSON

2/18/2005
CIVIL ACTION FILE NO. 3:96-CV-1959-L

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

DIPPIN' DOTS, INC., et al.,
Plaintiffs,

v.

THOMAS R. MOSEY, et al.,
Defendants.

FINAL JUDGMENT

These are related actions brought by the Plaintiffs for patent infringement pursuant to the Patent Act (35 U.S.C. § 100 et seq.), trade dress and trademark infringement pursuant to the Lanham Act (15 U.S.C. § 1125), alleged violations of the Uniform Trade Secrets Act (18 U.S.C. § 1905), and various state statutory and common law causes of action, as well as counterclaims brought by the Defendants for a declaration that Plaintiffs' patent is invalid, unenforceable, not infringed, that the Plaintiffs violated the antitrust laws of the United States,, and various state common law causes of action.

This action was filed by. Plaintiffs Dippin' Dots, Inc. and its founder, Curt Jones ("Jones") (collectively, "DDI"). DDI is engaged in the business of manufacturing and distributing flash frozen novelty ice cream. The Defendants in this action are corporations

and individuals engaged in the manufacture, distribution, or sale of competing flash frozen novelty ice cream products known as Frosty Bites and Mini Melts. Jones, the Dippin' Dots founder, applied for and received United States Patent No. 5,126,156 ("the `156 patent") for the method DDI uses to make a flash frozen ice cream.

In 1996, DDI sued Defendants Thomas R. Mosey ("Mosey") "and International Laser Expressions, Inc., doing business as Dots of Fun ("ILE") in Dallas, Texas in Cause of Action 3:96-CV-1959-L (the "1959 Case"). In 1998, DDI amended the complaint to include Dots of Fun, Ltd. ("DOF") and Nicholas Angus ("Angus"). Beginning in April 2000, DDI filed a series of lawsuits against former DDI dealers and distributors around the country alleging numerous causes of action. At that time, DDI also amended its complaint in the 1959 Case, adding Frosty Bites, Inc., which later because known as Mini Melts, Inc. ("Mini Melts"), to the litigation. (Mosey, ILE, DOF, Angus, and Mini Melts are hereinafter referred to as the "Mosey Parties"). In 2000, DDI also added F. Robert Esty, Jr., Frosty Bites Retail of Florida, Inc., Barry Jay Bass, Julia Ann Bass, Jack Miller, James Perez, Jeanine Matone, Victor Bauer, Daniel Kilcoyne, Shawn F. Kilcoyne, Daniel Dopko, Edmund Abramson, and Frosty Bites Distribution, LLC (the "Distribution Parties") as defendants to the patent litigation. Following this addition, Frosty Bites Distributor of Florida, Inc., Frosty Bites Distributor of Georgia, Inc., Frosty Bites of Michigan, Inc., J&J Concessions of New Jersey, Inc., Frosty Bites of New York., LLC, Frosty Bites Ice Cream Development, LLC, and Frosty Bites Ice Cream Co., LLC (the "Intervenors") all intervened in the

Texas Case DDI filed against the Mosey Parties. In early 2001, all of these cases were transferred to the Northern District of Georgia by the Judicial Panel on Multidistrict Litigation for consolidation (the "MDL Litigation")[1]

In August 2001, the Mosey Parties filed suit in Dallas, Texas (Civil Action No. 3-01-CV-15 32-M (the "1532 Case")) against DDI seeking a declaratory judgment that they had not misappropriated any trade secrets or infringed any enforceable trade dress rights, to which DDI counterclaimed for misappropriation of trade secrets, statutory and common law trademark and trade dress infringement, and various state law unfair competition causes of action. The 1532 Case was later consolidated with the 1959 Case. All claims other than the Defendants' claims for attorneys' fees having been resolved by summary judgment, jury trial or voluntary dismissal.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED that judgment is rendered in favor of the Defendants as follows:

1. With regard to the Frosty Bites product, the Defendants do not infringe United States Patent No. 5,126,156, either literally or under the doctrine of equivalents;

2. DDI's putative trade secrets are not protected by the Uniform Trade Secrets Act under Kentucky law;

3. The Defendants did not violate the Uniform Trade Secrets Act;

4. The Mosey Parties did not infringe DDI's alleged trade dress;

5. The Mosey Parties did not infringe DDI's trademark(s);

6. The Frosty Bites product and the method to make the Frosty Bites product do not infringe United States Patent No. 5,126,156;

7. The Defendants' sham litigation claims are dismissed with prejudice;

8. Curt Jones' sales of cryogenically frozen ice cream before March 6, 1988, are prior art to the `156 patent;

9. All of the claims of the `156 patent are invalid as obvious;

10. The relevant market in this case is the manufacture of and sale of cryogenically frozen pieces of ice cream in the United States; 11. DDI possessed monopoly power in the relevant market;

12. DDI willfully acquired or maintained this monopoly power through restrictive or exclusionary conduct;

13. DDI's conduct occurred in or affected interstate commerce;

14. DDI's monopolization of the relevant market directly and proximately caused damage to the business or property of the Defendants;

15. The actual damages of Mini Melts Inc. f/k/a Frosty Bites, Inc. were $0 (none);

16. The actual damages of Frosty Bites Distribution were $0 (none);

17. The '156 patent is unenforceable due to inequitable conduct during the prosecution of the patent before the United States Patent and Trademark Office; and

18. All of DDI's and the Defendants' state law claims that were to be tried in the second trial are dismissed with prejudice, and each party shall bear its own costs with respect to those claims.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

1. The preliminary injunction entered on March 31, 1997 is dissolved;

2. Frosty Bites Distribution is entitled to $676,675.46 in attorney's fees and costs under the Clayton Act; and

3. Dippin' Dots, Inc. and Curt Jones shall pay the Defendants' costs on all claims other than the dismissed state law claims.

SO ORDERED, this 18 day of February, 2005.

THOMAS W. THRASH, JR.
United States District Judge

Footnote

fn1The MDL Litigation consisted of eight related actions. In five of those cases, DDI sued various Frosty Bites manufacturers and distributors for patent infringement, trademark and trade dress infringement, misappropriation of trade secrets, and breach of contract. The offer three actions were brought by Frosty Bites' manufacturers and distributors seeking a declaratory judgment that the `156 patent is invalid and unenforceable.

6/4/2005

CIVIL ACTION FILE NO. 3:96-CV-1959-L

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

DIPPIN' DOTS, INC., et al.,
Plaintiffs,

v.

THOMAS R. MOSEY, et al.,
Defendants.

ORDER

This is an action for patent infringement. Following a jury trial on the issue of invalidity, it is before the Court on the Defendants' Motion to Amend Judgment [Doc. 945]. The motion is granted in part and denied in part. A motion under Rule 59(e) of the Federal Rules of Civil Procedure serves the narrow purpose of allowing a party "to correct manifest errors of law or fact or to present newly discovered evidence." Waltman v. International Paper Co., 875 F.2d 468, 473 (5th Cir. 1989). The Court clearly erred in the June 3, 2004 Order in directing the Clerk to enter a judgment for postjudgment interest from October 20, 2003, the date of the jury verdict. The Clerk is directed to enter an amended judgment awarding prejudgment interest from October 20, 2003. Otherwise, the motion is DENIED.

SO ORDERED, this 4 day of August, 2005.

CIVIL ACTION FILE NO. 3:96-CV-1959-L

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

DIPPIN' DOTS, INC., et al.,
Plaintiffs,

v.

THOMAS R. MOSEY, et al.,
Defendants.

August 4, 2005, Decided

August 4, 2005, Filed

JUDGES: THOMAS W. THRASH, JR., United States District Judge.

OPINION BY: THOMAS W. THRASH , JR.

ORDER AND OPINION

This is an action for patent infringement. Following a jury trial on the issue of invalidity, it is before the Court on the Manufacturing Parties' Motion for Attorneys' Fees under the Clayton Act [Doc. 936]. For the reasons set forth below, the motion is granted.

I. *BACKGROUND*

This action was filed by Plaintiffs Dippin' Dots, Inc.

("Dippin' Dots"), and its founder, Curt Jones. Dippin' Dots is an Illinois corporation with its principal place of business in Paducah, Kentucky. Dippin' Dots is engaged in the business of manufacturing and distributing flash frozen novelty ice cream. The Defendants in this action are engaged in either the manufacture ("Manufacturing Parties") or distribution ("Distribution Parties") of a competing flash frozen novelty ice cream product known as Frosty Bites.

As part of their response to the Plaintiffs' claims, the Manufacturing Parties filed antitrust counterclaims against the Plaintiffs. The Manufacturing Parties brought their antitrust claims based on the theory of *Walker Process* fraud. In October 2003, a jury trial was held in this case. The jury found for the Manufacturing Parties on every element of the antitrust counterclaim, although the jury awarded no monetary damages. (Jury Verdict, p. 3-4.) Pursuant to the jury's findings, the Manufacturing Parties filed this motion for attorneys' fees.

II. *STANDARD*

Section four of the Clayton Act provides that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover threefold the damages by him sustained, and the cost of the suit, including a reasonable attorney's fee." 15 U.S.C. § 15(a). A violation of the antitrust laws is, by itself, not enough to justify an award of attorneys' fees. Rather, an antitrust plaintiff must show that the violation of the antitrust laws caused an injury to its business or property, although the actual recovery of compensatory

damages is not necessary. *Sciambra v. Graham News*, 892 F.2d 411, 415-16 (5th Cir. 1990). Once the antitrust plaintiff proves a violation of the antitrust laws and the fact of damage, an award for attorneys' fees and costs is mandatory. *Id.* at 414; 15 U.S.C. § 15(a).

III. *DISCUSSION*

In its verdict, the jury determined that the Manufacturing Parties had proven all of the elements of their antitrust counterclaim, including the fact of damage. (Jury Verdict, p. 3-4.) The Plaintiffs contend that the Manufacturing Parties are not entitled to an award of attorneys' fees because the jury did not give the Defendants a monetary award. (*Id.* at 4.) However, whether the jury awarded monetary relief is not dispositive with respect to an award of attorneys' fees under the Clayton Act. Rather, the issue is whether the Plaintiffs' antitrust violations caused damage to the business or property of the Defendants. *Sciambra*, 892 F.2d at 415 ("Our holding merely recognizes that the structure of section 4 and the fact of damage analysis make the actual recovery of compensatory damages irrelevant"). The jury answered that specific question in the affirmative, entitling the Manufacturing Parties to an award of attorneys' fees and costs of the suit. *See also Kearney & Trecker Corp. v. Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977) (placing the defendant in the position of having to choose from ceasing competition, obtaining a license, or defending the suit, each of which would result in negative economic injury, is an injury to business or property).

The Plaintiffs contend that any award of attorneys' fees should be limited to the work attempting to prove an

antitrust injury. However, proving the *Walker Process* counterclaim required establishing patent invalidity and fraud on the Patent Office. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070 (Fed. Cir. 1998) (patentee who brings an infringement suit may be subject to antitrust liability for the anti-competitive effects of that suit if the alleged infringer proves that the asserted patent was obtained through "knowing and willful fraud"). This effort consumed the vast majority of attorney time for counsel for the Manufacturing Parties. The issues relating to infringement were so intertwined with the validity issues as to be inseparable. The Plaintiffs' argument is without merit.

Once the Court has determined that an award of attorneys' fees is proper, it must then determine what that award should be. The determination of reasonable attorneys' fees is a two step procedure under prevailing Fifth Circuit case law. First, the Court must determine the reasonable number of hours expended on the litigation, and the reasonable hourly rates for the services rendered. *Louisiana Power & Light Co. v. Kellstrom*, 50 F.3d 319, 324 (5th Cir. 1995). Next, the Court must multiply the reasonable hours by the reasonable rates. *Id.* "The product of this multiplication is the lodestar, which the district court then either accepts or adjusts upward or downward, depending on the circumstances of the case." *Id.*

With respect to the reasonable number of hours spent on the litigation, "the fee applicant bears the burden of establishing entitlement to an award and documenting the appropriate hours expended and hourly rates." *Id.* at 324. The documentation should be such that this

Court cannot only determine whether the total hours claimed is reasonable, but also, whether particular hours claimed were reasonably expended. *Id.* at 325. Mr. Oake and Mr. Siegismund have submitted copies of their billing records and both have filed declarations which set out the number of hours expended on this litigation and the claims to which those hours were directed. After careful review of the declarations and supporting documents, this Court finds that the hours claimed were reasonable, especially considering the complexity and length of this litigation. The Plaintiffs have not asserted specific objections to any of the hours claimed as being unnecessary, redundant or lacking in billing judgment.

As for determining the reasonable rate to be charged for the services rendered, the Court is to consider the "attorneys' regular rates as well as the prevailing rates." *Louisiana Power & Light*, 50 F.3d at 328. When the rates requested by the attorneys are their regular rates, are within the range of prevailing market rates, and are not contested, such rates are "prima facie reasonable." *Id.* Mr. Oake and Mr. Siegismund have shown that their regular rates fell within the range of prevailing market rates, and the Plaintiffs did not contest that issue. Given that such rates are "prima facie reasonable" and seeing no reason to adjust them, especially considering the complexity and length of this litigation, this Court determines that the rates requested by the Manufacturing Parties are the reasonable rates for the services rendered for prosecuting the antitrust counterclaim.

Having determined that the hours and rates requested by Frosty Bites Distribution are reasonable, the

remaining step is to multiply the reasonable hours by the reasonable rates to come up with the reasonable attorneys' fee award. When the hours are multiplied by the appropriate rate, depending on the attorney billing the hours, and those products are added together, the total comes to $ 1,914,724.00.

After calculating the reasonable award of attorneys' fees and costs, a district court may consider adjustment of the lodestar based on the twelve factors from *Johnson v. Georgia Highway Exp., Inc.*, 488 F.2d 714, 717-19 (1974). The party advocating an adjustment has the burden to prove that it is warranted. *Louisiana Power & Light*, 50 F.3d at 329. The Plaintiffs seek an adjustment to the lodestar based upon the failure of the jury to award any damages on the antitrust counterclaim. This is a reasonable and principled basis to seek an adjustment to the lodestar. On the other hand, the Manufacturing Parties also move for an award of attorneys' fees under the Patent Act. The Manufacturing Parties were totally victorious on their claims that the patent was invalid due to prior art, obviousness and inequitable conduct. There is no basis for a reduction of the lodestar as to the successful invalidity claims. Therefore, any reduction of the lodestar here would result in an award of the same amount under the motion seeking fees under the Patent Act.

IV. *CONCLUSION*

For the reasons set forth above, the Manufacturing Parties' Motion for Attorneys' Fees and Costs Under the Clayton Act [Doc. 936] is GRANTED. The Clerk is directed to enter a judgment in favor of the

Manufacturing Parties and against the Plaintiffs in the sum of $ 1,914,724.00 with prejudgment interest from October 20, 2003.

SO ORDERED, this 4 day of August, 2005.

THOMAS W. THRASH, JR.

United States District Judge

Filed 6/3/2004
CIVIL ACTION FILE NO. 3:96-CV-1959-L

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

DIPPIN' DOTS, INC., et al.,
Plaintiffs,

v.

THOMAS R. MOSEY, et al.,
Defendants.

ORDER

This is an action for patent and trademark infringement. At trial, the Defendant Frosty Bites Distribution, LLC ("Frosty Bites Distribution") prevailed on its antitrust counterclaim. The case is now before the Court on the Defendant's Motion for Attorney Fees and Costs Under the Clayton Act [Doc. 849]. For the reasons set forth below, the motion is granted, and Frosty Bites Distribution is awarded $676,675.46 in attorneys' fees and costs.

I. BACKGROUND

This action was filed by Plaintiffs Dippin' Dots, Inc. ("Dippin' Dots"), and its founder, Curt Jones. Dippin' Dots is an Illinois corporation with its principal place of business in Paducah, Kentucky. Dippin' Dots is engaged in the business of manufacturing and distributing flash frozen novelty ice cream. The

Defendants in this action are engaged in either the manufacture ("Manufacturing Parties") or distribution ("Distribution Parties") of a competing flash frozen novelty ice cream product known as Frosty Bites.

As part of their response to the Plaintiffs' claims, the Distribution Parties filed antitrust counterclaims against the Plaintiffs. The Distribution Parties brought their antitrust claims based on the theory of Walker Process fraud. In October 2003, a jury trial was held in this case. The jury found for Frosty Bites Distribution on every element of the antitrust counterclaim, although the jury awarded no monetary damages. (Jury Verdict, p. 3-4.) Pursuant to the jury's findings, Frosty Bites Distribution filed this motion for attorneys' fees.

II. STANDARD

Section four of the Clayton Act provides that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefore . . . and shall recover threefold the damages by him sustained, and the cost of the suit, including a reasonable attorney's fee." 15 U.S.C. § 15(a). A violation of the antitrust laws is, by itself, not enough to justify an award of attorneys' fees. Rather, an antitrust plaintiff must show that the violation of the antitrust laws caused an injury to its business or property, although the actual recovery of compensatory damages is not necessary. Sciambra v. Graham News, 892 F.2d 411, 415-16 (5th Cir. 1990). Once the antitrust plaintiff proves a violation of the antitrust laws and the fact of damage, an award for attorneys' fees and costs is mandatory. Id. at 414; 15 U.S.C. § 15(a).

III. DISCUSSION

In its verdict, the jury determined that Frosty Bites Distribution had proven all of the elements of its antitrust counterclaim, including the fact of damage. (Jury Verdict, p. 3-4.) The Plaintiffs contend that Frosty Bites Distribution is not entitled to an award of attorneys' fees because the jury did not give the Defendants a monetary award. (Id. at 4.) However, whether the jury awarded monetary relief is not dispositive with respect to an award of attorneys' fees under the Clayton Act. Rather, the issue is whether the Plaintiffs' antitrust violations caused damage to the business or property of the Defendants. Sciambra, 892 F.2d at 415 ("Our holding merely recognizes that the structure of section 4 and the fact of damage analysis make the actual recovery of compensatory damages irrelevant"). The jury answered that specific question in the affirmative, entitling Frosty Bites Distribution to an award of attorneys' fees and costs of the suit. See also Kearney & Trecker Corp. v. Cincinnati Milacron Inc., 562 F. 2d 365, 374 (6th Cir. 1977) (placing the defendant in the position of having to choose from ceasing competition, obtaining a license, or defending the suit, each of which would result in negative economic injury, is an injury to business or property).

The Plaintiffs also contend that Frosty Bites Distribution's motion should be denied or apportioned because the Court granted judgment as a matter of law against seventeen of the twenty Distribution Parties in the litigation. This occurred because the other Distribution Parties did not appear at trial and presented no evidence to support any claims for relief. Frosty Bites Distribution, however, is the only party

seeking an award of attorneys' fees, and it was one of the parties which the jury determined was injured in business or property by the Plaintiffs' violations of the antitrust laws. Moreover, through indemnity agreements, Frosty Bites Distribution took on the entire defense of the Plaintiffs' action and prosecution of the antitrust counterclaim. Accordingly, Frosty Bites Distribution is the only party that incurred any attorneys' fees and costs with respect to the antitrust claims. Finally, even if the indemnity agreements were not in place, Frosty Bites Distribution would have had to incur the fees and costs it now seeks for its own prosecution of the antitrust counterclaim. The fact that not all of the Distribution Parties' claims went to the jury is not relevant to Frosty Bites Distribution's claim for the fees and costs it incurred in prosecuting the antitrust counterclaim against the Plaintiffs. Because Frosty Bites Distribution showed it suffered damage to its business or property by the Plaintiffs' violations of the antitrust laws, it is entitled to an award of reasonable attorneys' fees and costs.

Once the Court has determined that an award of attorneys' fees is proper, it must then determine what that award should be. The determination of reasonable attorneys' fees is a two step procedure under prevailing Fifth Circuit caselaw. First, the Court must determine the reasonable number of hours expended on the litigation, and the reasonable hourly rates for the services rendered. Louisiana Power & Light Co. v. Kellstrom, 50 F.3d 319, 324 (5th Cir. 1995). Next, the Court must multiply the reasonable hours by the reasonable rates. Id. "The product of this multiplication is the lodestar, which the district court then either accepts or adjusts upward or downward, depending on

the circumstances of the case." Id.

With respect to the reasonable number of hours spent on the litigation, "the fee applicant bears the burden of establishing entitlement to an award and documenting the appropriate hours expended and hourly rates." Id. at 324. The documentation should be such that this Court cannot only determine whether the total hours claimed is reasonable, but also, whether particular hours claimed were reasonably expended. Id. at 325. Frosty Bites Distribution filed a Detailed Specification and Itemization of the Requested Clayton Act Attorneys' Fee Award [Doc. 873] ("Specification") in which it sets out the number of hours expended on this litigation and the claims to which those hours were directed. The Specification summarizes the hours expended by the attorneys and staff that worked on this case, and then lists each of the billable hour entries for this litigation, beginning on April 1, 2003.[1] Below each billable hour entry is a detailed description of the work which was performed on the case during that time period. In listing the billable hour entries for this case, the Specification identifies those hours which were spent on matters unrelated to the antitrust counterclaim, and does not include those hours in Frosty Bites Distribution's calculation of reasonable hours expended. (Specification, Tab A, 1, (entries marked with "Ø").) The Specification also identifies those hours which were split between the antitrust counterclaim and other, unrelated matters, and for those entries, only half of the hours are included in Frosty Bites Distribution's calculation of reasonable hours expended. (Specification, Tab A, 1, (entries marked with "Sp.").) Having carefully reviewed Frosty Bites Distribution's Specification, including the

summaries, detailed billable hour entries, and supporting affidavits, this Court finds that the hours claimed were reasonable, especially considering the complexity and length of this litigation. The Plaintiffs have not asserted specific objections to any of the hours claimed as being unnecessary, redundant or lacking in billing judgment.

As for determining the reasonable rate to be charged for the services rendered, the Court is to consider the "attorneys' regular rates as well as the prevailing rates." Louisiana Power & Light 50 F.3d at 328. When the rates requested by the attorneys are their regular rates, are within the range of prevailing market rates, and are not contested, such rates are "prima facie reasonable." Id. Frosty Bites Distribution produced evidence that their attorneys' regular rates fell within the range of prevailing market rates, and the Plaintiffs did not contest that issue. (Specification, Tab B, Table 17b.) Given that such rates are "prima facie reasonable" and seeing no reason to adjust them, especially considering the complexity and length of this litigation, this Court determines that the rates requested by Frosty Bites Distribution in the Specification are the reasonable rates for the services rendered for prosecuting the antitrust counterclaim.

Having determined that the hours and rates requested by Frosty Bites Distribution are reasonable, the remaining step is to multiply the reasonable hours by the reasonable rates to come up with the reasonable attorneys' fee award. When the hours are multiplied by the appropriate rate, depending on the attorney billing the hours, and those products are added together, the total comes to $649,898.39. Frosty Bites Distribution is

also entitled by statute to costs of the case, which total $26,777.07. (Specification, Tab A, 1, p. 4.) Thus, the Frosty Bites Distribution lodestar amount is $676,675.46.

After calculating the reasonable award of attorneys' fees and costs, a district court may consider adjustment of the lodestar based on the twelve factors from Johnson v. Georgia Highway Exp., Inc., 488 F.2d 714, 717-19 (1974). The party advocating an adjustment has the burden to prove such is warranted. Louisiana Power & Light, 50 F.3d at 329. In this case, however, neither party sought an adjustment of the lodestar - Frosty Bites Distribution did not request an upward adjustment, and the Plaintiffs did not request a downward adjustment. Since neither party sought an adjustment to the lodestar, there is no reason for this Court to undertake an evaluation of the Johnson factors.

IV. CONCLUSION

For the reasons set forth above, Frosty Bites Distribution's Motion for Attorney Fees and Costs Under the Clayton Act [Doc. 849] is GRANTED. The Clerk is directed to enter a judgment in favor of the Defendant Frosty Bites Distribution and against the Plaintiffs in the sum of $676,675.46 with post judgment interest from October 20, 2003.

SO ORDERED, this 3 day of June, 2004.

THOMAS W. THRASH, JR.
United States District Judge

Footnote

Fn1Frosty Bites Distribution indicated that although some work was done on the antitrust counterclaim prior to April 1, 2003, those hours are not included in the request for attorneys' fees.

Filed 6/3/2004
CIVIL ACTION FILE NO. 3:96-CV-1959-L

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

DIPPIN' DOTS, INC., et al.,
Plaintiffs,

v.

THOMAS R. MOSEY, et al.,
Defendants.

ORDER

This is an action for patent infringement. Following a jury trial on the issue of invalidity, it is before the Court for a determination of whether the Plaintiffs committed inequitable conduct in obtaining United States Patent No. 5,126,156 ("the '156 patent"). For the reasons set forth below, this Court finds that the Plaintiffs did commit inequitable conduct in obtaining the '156 patent, making their rights in the patent unenforceable.

I. BACKGROUND

This action was filed by Plaintiffs Dippin' Dots, Inc. ("Dippin' Dots"), and its founder, Curt Jones. Dippin' Dots is an Illinois corporation with its principal place of business in Paducah, Kentucky. Dippin' Dots is engaged in the business of manufacturing and distributing flash frozen novelty ice cream. The

Defendants in this action are engaged in either the manufacture or distribution of a competing flash frozen novelty ice cream product known as Frosty Bites.

Jones filed his patent application in 1989. In 1987, Jones sold a free flowing, flash frozen ice cream product to consumers at the Festival Market Mall in Paducah, Kentucky. Jones did not disclose those sales to the Patent Office while prosecuting his patent. Evidence produced at trial showed that Jones and his attorney, Warren Schickli, argued to the Patent Office that Jones' method as described in the `156 patent application was the first to teach service of a flash frozen ice cream product while maintaining its free flowing quality. (Def.'s Trial Ex. 3, p. P0131-2.) The patent examiner agreed that no references in the disclosed prior art taught service of a free flowing, flash frozen product. Nevertheless, the examiner rejected Jones' application, on the grounds that serving the product in a free flowing state was obvious based on the prior art and the nature of the product being served. (Def's Trial Ex. 3, p. P0137-8.) In the end, however, based on objective evidence of commercial success, the Plaintiffs overcame the examiner's obviousness objection, and the '156 patent was issued. In getting the patent issued, Jones and Schickli made statements that were false in light of the evidence presented at trial about the Festival Market sales.

Based on the evidence presented, the jury made several factual determinations which guide this Court's resolution of the inequitable conduct issue. The jury determined that both Jones and Schickli made misrepresentations or omissions that violated the duty of candor they owed to the Patent Office. (Jury Verdict,

p. 2.) The jury also concluded that the misrepresentations or omissions by Jones and Schickli were material to the issuance of the patent, and that they were made with the intent to deceive the Patent Office. Id. Based on those jury findings and the evidence presented at trial, the Defendants seek a determination that the Plaintiffs committed inequitable conduct in obtaining the '156 patent, rendering it unenforceable.

II. INEQUITABLE CONDUCT STANDARD.

A patent applicant is under a duty to prosecute a patent application with candor, good faith and honesty. A breach of this duty constitutes inequitable conduct. Molins PLC v. Textron, Inc., 48 F.3d. 1172, 1178 (Fed. Cir. 1995). Inequitable conduct may take the form of an affirmative misrepresentation of a material fact, the failure to disclose material information, or the submission of false material information. Id. The party alleging inequitable conduct must put forth clear and convincing evidence as to the materiality of the misrepresentation or omission, as well as an intent to mislead the Patent Office. Id. Once both materiality and intent are shown, the "court must weigh them to determine whether the equities warrant a conclusion that inequitable conduct occurred." Id. Ultimately, the issue is whether considering all the circumstances, the applicant's conduct was so culpable that the patent should not be enforced. Id.

II. DISCUSSION

The issue of inequitable conduct involves a three step analysis, the first two being factual in nature and the

third a matter of law for the Court. The factual issues are: (1) whether there was a material misrepresentation or omission to the Patent Office; and (2) whether the misrepresentation or omission was made with the intent to deceive. If the factual issues are resolved in the affirmative, the legal issue for the Court is whether, balancing the materiality of the misrepresentation or omission with the intent to deceive, the patent should be unenforceable because of the applicant's conduct.

A. Material Misrepresentation

There is no dispute in this case that Jones' pre-critical date Festival Market sales were not disclosed to the Patent Office during the prosecution of the `156 patent. Also, there is no dispute that Jones and Schickli made arguments for patentability which could not have been made if the Festival Market sales had been disclosed as prior art. The jury determined that the Defendants proved by clear and convincing evidence that the failure to disclose those sales, and the subsequent representations and arguments to the Patent Office, amounted to material misrepresentations or omissions made with the intent to deceive. The Court accepts and adopts the jury's findings of fact as the Court's independent findings of fact for the inequitable conduct determination.

A prior art reference is material if there is substantial likelihood that a reasonable patent examiner would consider the reference important to the decision of whether to issue a patent. Molins PLC v. Textron, Inc., 48 F.3d 1172, 1180 (Fed. Cir. 1995). When an omitted prior art reference teaches features claimed in the

application which are not otherwise taught by the prior art, there is a substantial likelihood that a reasonable patent examiner would consider the omitted reference to be important. Id. In this case, the evidence produced at trial showed that the service of a free flowing product to consumers for direct consumption, as claimed in the patent and taught by the Festival Market sales, was not present in the prior art considered by the patent examiner. (Def.'s Trial Ex. 3, p. P0131-2; P0137-8.) Neither Jones nor Schickli disclosed the Festival Market sales to the patent examiner. The jury was justified in concluding that withholding these pre-critical date activities was a material omission.

There was more here, however, than just a failure to disclose. In an amendment sent to the Patent Office on September 18, 1991, Schickli stated that "none of the cited references teach or suggest the concept of serving a product while maintaining the product free following [sic, "free flowing"]." The cited references included the Vitkovsky reference. Although this statement may be literally true, it is misleading in failing to disclose the Festival Market sales of a product free flowing and served directly for consumption. Jones went further in his November 25, 1991, declaration. He stated that the method he employed in March 1988 "is the first method to allow serving of a completely free flowing frozen alimentary dairy product for direct consumption by consumers." In light of the evidence of the 1987 Festival Market sales, that statement is absolutely, unequivocally and unquestionably false.

Dippin' Dots now argues that these false and misleading statements were not material because the

1987 Festival Market sales were merely cumulative to the Vitkovsky reference which was before the examiner. The Court rejects this argument for a couple of reasons. First, it is the exact opposite of the position taken by Schickli and Jones when arguing for patentability. See North American Vaccine, Inc. v. American Cyanamid Co., 7 F.3d 1571, 1577 (Fed. Cir. 1993) (patentee cannot take one position before the Patent Office and a different position before the court); Jonsson v. Stanley Works, 903 F.2d 812, 820-21 (Fed. Cir. 1990) (same). Second, the Vitkovsky reference teaches adding frozen free flowing particles to other food items, such as pastries, before the food item is then served for consumption. This was the analysis of Vitkovsky by Dippin' Dots' expert, Dr. L. Steven Young. When the frozen particles are added to other food items they are no longer free flowing when served. It is highly probable that the `156 patent would not have been issued if the Plaintiffs had disclosed the 1987 Festival Market sales. Unquestionably, a reasonable patent examiner would consider those sales of a free flowing product direct for consumption to be important to the decision of whether to issue a patent. Additionally, the jury's finding of materiality was justified because if the Festival Market sales had been disclosed, Jones' commercial success declaration could not have been used to overcome the patent examiner's obviousness objection. In order to overcome an obviousness objection, a patent applicant may present objective evidence of nonobviousness such as, in this case, a commercial success declaration. There must be a link, however, between the features of the claimed invention creating the commercial success, and the alleged nonobviousness of the invention. If the putative link is readily available in the prior art, then the nexus

fails and there is no secondary evidence of nonobviousness. J.T. Eaton & Co., Inc. v. Atlantic Paste & Glue Co., 106 F.3d 1563, 1571 (Fed. Cir. 1997).

In this case, Jones' secondary evidence of commercial success was based on his service of free flowing ice cream. Service of his free flowing ice cream was not specifically taught by the cited prior art, but it was a feature readily available in the prior art of the Festival Market sales. If the Festival Market sales had been disclosed, the link between the commercial success and the nonobviousness features would have failed, thus eliminating the relevance of the commercial success declaration with respect to the patent examiner's objection. Based on that evidence, the jury was justified in concluding that a reasonable patent examiner would consider such prior art important, making the omission of the Festival Market sales material.

B. Intent to Mislead

It is not necessary for the Defendants to produce direct evidence that the Plaintiffs intended to mislead the Patent Office by not disclosing Jones' Festival Market sales. Rather, this element may be "inferred from the facts and circumstances surrounding the applicant's overall conduct." Paragon Podiatry Laboratory, Inc. v. KLM Laboratories., Inc., 984 F.2d 1182,1189-90 (Fed. Cir. 1993). Although a simple omission is not sufficient to find an intent to mislead, such intent may be inferred when there is a failure to disclose material information, coupled with the submission of false or misleading information or an argument to the Patent Office which could not have been made had the material reference

been disclosed. Id. at 1191 (omission coupled with submission of false material); GFI, Inc. v. Franklin Corp., 265 F.3d. 1268, 1275 (Fed. Cir. 2001) (argument that could not have been made had disclosure of prior art been proper). Both failure to disclose and submission of false or misleading statements are present in this case, and support the jury's finding that Jones and Schickli intended to mislead the Patent Office.

Evidence produced at trial showed that Jones and Schickli submitted a declaration and argued to the Patent Office that Jones' method was the first to serve a completely free flowing ice cream product for direct consumption by consumers. (Def's Trial Ex. 3, p. P0147.) These representations were false, because Jones served a free flowing ice cream product for direct consumption at the Festival Market prior to the critical date for his patent application. Because the Festival Market activities were not disclosed, the patent examiner could not fully evaluate the truthfulness of Jones' and Schickli's assertions against the prior art.

In a similar situation, the Federal Circuit found that making false representations, while withholding material facts from the patent examiner, showed an intent to mislead by a patent applicant. In Paragon Podiatry Laboratory, Inc. v. KLM Laboratories. Inc., 984 F.2d 1182 (Fed. Cir. 1993), the patent applicant and his attorney submitted affidavits concerning the benefits of the patent application over the prior art. What was not disclosed, however, was that the affiants each held a financial interest in the patent applicant company. The Federal Circuit acknowledged that an intent to mislead cannot be presumed from mere

nondisclosure of information.

Nevertheless, the court indicated that the act of submitting false material information while not providing the patent examiner with the tools needed to fully investigate the facts showed an intent to mislead the Patent Office. The Paragon Podiatry court then went on to discuss the particularly troublesome nature of withholding prior sales information. The court noted that concealment of prior sales denies the patent examiner a chance to properly evaluate the application, because that type of information cannot be obtained independently. Id. at 1192-93. The Federal Circuit affirmed the district court's summary judgment finding that the patent applicant engaged in inequitable conduct while prosecuting its patent application. A similar result is warranted in this case. Jones and Schickli told the Patent Office that Jones' method was the first to teach service of a free flowing ice cream product for direct consumption, while at the same time they withheld the highly relevant Festival Market sales from the patent examiner. That combination of elements supports the jury's findings that Jones and Schickli intended to mislead the patent examiner, and the Court adopts those findings as its own. In doing so, the Court relies in part upon its observations of Jones and Schickli as they testified at trial. In particular, the Court notes that Jones' trial testimony regarding damaging entries in his notebooks was evasive and displayed a lack of candor.

In addition to the false declaration and false representations, Jones and Schickli also made an argument for patentability that could not have been made if the Festival Market sales had been disclosed.

The patent examiner found that the prior art did not teach service of a free flowing ice cream product, but said that such service was obvious based on prior art references which were disclosed and the nature of the product at issue. To overcome this obviousness objection, Jones and Schickli submitted objective evidence of nonobviousness in the form of a commercial success declaration. The commercial success of Jones' product was linked to his service of ice cream in a free flowing form to consumers for direct consumption. As discussed above, if the service of a free flowing ice cream product for direct consumption was readily available in the prior art, then the commercial success declaration could not have been used to overcome the patent examiner's obviousness objection. Jones' pre-critical date Festival Market sales put service of a free flowing product in the prior art, and proper disclosure would have prevented him from making his commercial success argument to the patent examiner.

A material omission coupled with an argument for patentability that could not have otherwise been made will support a finding of intent to mislead. LaBounty Mfg., Inc. v. United States Intern. Trade Comm'n, 958 F.2d 1066, 1076 (Fed. Cir. 1992) In LaBounty, a case dealing with a patent application for heavy duty scrap shears, the patent applicant sought to overcome a prior art objection to its patent by focusing on a feature it claimed distinguished its application from the prior art. The patent applicant failed to inform the Patent Office, however, that it had sold shears containing the distinguishing feature before the critical date for the patent application. Id. The court held that making such an argument, while withholding the information regarding pre-critical date sales, supported a finding of

intent to mislead. Id. If Jones and Schickli had disclosed the Festival Market sales, the commercial success argument for nonobviousness could not have been made because the required nexus for the declaration would have been present in the prior art. The jury's finding of intent to deceive was supported by this evidence.

The Plaintiffs contend that Jones' and Schickli's belief that the Festival Market activities were experimental shows that there was no intent to mislead the Patent Office. The jury, however, rejected the Plaintiffs' contentions that the pre-critical date Festival Market sales were experimental. The expression by an inventor of his subjective intent to experiment, particularly after institution of litigation, is generally of minimal value. Paragon Podiatry, 984 F.2d at 1186. When sales are made in an ordinary commercial environment and the goods are placed outside the inventor's control, an inventor's secretly held subjective intent to "experiment," is unavailing without objective evidence to support the contention. LaBounty, 958 F.2d at 1072.

There was no objective evidence of experimentation in the context of the Festival Market sales. The jury found that Jones' sales at the Festival Market were not for the primary purpose of experimentation, but instead, were properly considered prior art which should have been revealed to the patent examiner. Assuming, arguendo, that Jones or Schickli had any doubt about whether the Festival Market sales should have been disclosed, they were under a duty to resolve that doubt in favor of disclosure. Failure to do so was a violation of the duty of candor to the Patent Office. GFI, Inc. v. Franklin Corp., 265 F.3d 1268,1274 (Fed. Cir. 2001); LaBounty, 958 F.2d at 1076 ("Close cases

should be resolved by disclosure, not unilaterally by the applicant."). The jury, considering all the circumstances and under proper instructions, determined that making arguments and representations to the Patent Office while withholding contradictory information amounted to material misrepresentations or omissions with the intent to deceive. The Court adopts the jury's findings as its own.

Finally, it is noteworthy that in addition to finding that Jones and Schickli intended to deceive the Patent Office with respect to the inequitable conduct claim, the jury also found an intent to deceive sufficient to support the Walker Process fraud antitrust claim. (Jury Verdict, p. 3.) Walker Process fraud required a showing that Jones and Schickli committed "knowing and willful" fraud, a higher standard than what must be shown for an inequitable conduct claim. Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1070 (Fed. Cir. 1998) ("Walker Process fraud is a more serious offense than inequitable conduct"). As the jury found that there was "clear and convincing evidence that the Plaintiffs intentionally withheld or deliberately falsified information that, had the Patent Office known about it, would have resulted in the Patent Office denying the relevant patent," there is no reason for this Court to disturb the jury's finding of an intent to deceive on the issue of inequitable conduct.

C. Weighing Materiality and Intent

The jury found that the Defendants proved by clear and convincing evidence that Jones and Schickli made material misrepresentations or omissions to the Patent Office with the intent to deceive. The Court must now

weigh the materiality and intent to determine whether the patent should be unenforceable due to inequitable conduct. This determination takes the form of a sliding scale, in that when the misrepresentation or omission was of a highly material nature, lower levels of intent to deceive will support a finding of inequitable conduct, and vice versa. Li Second Family Ltd. Partnership v. Toshiba Corp., 231 F.3d 1373, 1378 (Fed. Cir. 2000).

In this case, the Court finds that both the materiality of the misrepresentations and the intent to deceive are of a high nature, making the Plaintiffs' patent rights unenforceable due to inequitable conduct. The omission of the Festival Market sales was highly material. Those sales revealed product features not present in the prior art, which, if revealed, would have shown the representations and arguments advanced by Jones and Schickli to be false. The facts of this case indicate that the examiner would have rejected the application based on obviousness if the pre-critical date sales had been disclosed. This underscores the high materiality of Jones and Schickli's omissions and misrepresentations. Given the high materiality of the omitted prior art and the evidence of an intent to mislead the Patent Office, this Court concludes that the inequitable conduct in securing this patent, should make the Plaintiffs' rights in it unenforceable.

IV. CONCLUSION

For the reasons set forth above, this Court holds that the Plaintiffs' '156 patent is unenforceable due to inequitable conduct during prosecution of the patent.
SO ORDERED, this 3 day of June, 2004
THOMAS W. THRASH, JR. /USDJ

2005-1330, -1582

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

DIPPIN' DOTS, INC. and CURT D. JONES, Plaintiffs-Appellants, v. THOMAS R. MOSEY, DOTS OF FUN, INTERNATIONAL LASER EXPRESSIONS, INC. (also known as I.L.E., Inc.), Defendants-Cross Appellants, and NICHOLAS ANGUS, Defendant/Counterclaimant-Cross Appellant, and FROSTY BITES DISTRIBUTION LLC, Defendant-Appellee, and FROSTY BITES DISTRIBUTOR OF FLORIDA, INC., FROSTY BITES DISTRIBUTOR OF GEORGIA, INC., FROSTY BITES OF MICHIGAN, INC., J&J CONCESSIONS OF NEW JERSEY, INC., FROSTY BITES ICE CREAM COMPANY, LLC, FROSTY BITES SOUTH, INC., INTERNATIONAL ASSOCIATION OF AMUSEMENT PARKS AND ATTRACTIONS, FROSTY BITES OF NEW YORK, LLC, and FROSTY BITES ICE CREAM DEVELOPMENT, LLC, Defendants, v. F. ROBERT ESTY, JR., BARRY JAY BASS, VICTOR BAUER, JACK MILLER, DANIEL KILCOYNE, SHAWN P. KILCOYNE, and DANIEL DOPKO, Counterclaim Defendants, and FROSTY BITES, INC. (now known as Mini Melts, Inc.), Counterclaim Defendant-Cross Appellant.

April 6, 2007, Decided

April 6, 2007, Filed

NOTICE: THIS DECISION WAS ISSUED AS UNPUBLISHED OR NONPRECEDENTIAL AND MAY NOT BE CITED AS PRECEDENT. PLEASE REFER TO FEDERAL RULES OF APPELLATE PROCEDURE RULE 32.1 GOVERNING THE CITATION TO UNPUBLISHED OPINIONS.

JUDGES: Before Mayer, Circuit Judge, Rader, Circuit Judge, and Gajarsa, Circuit Judge.

OPINION

ORDER

A petition for rehearing having been filed by the Cross-Appellant, * and a response thereto having been invited by the court and filed by the Appellant,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on April 13, 2007.

Footnotes

*The petition was filed by Thomas R. Mosey, et al.